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Germany

Dairy and Products

German Quota Overshoot Further Reduced in MY 2006/07

2007

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Report Highlights:

Despite a 0.5 percent milk quota increase, German dairy farmers exceeded their milk quotas by a total of 8,656 MT in milk quota year (MY) 2006/07. This compares to an above quota production of 201,142 MT and 403,000 MT in the previous two milk quota years. As a result of the excess production, farmers have to pay super levies of US\$ 3.6 million (Euro 2.47 million).

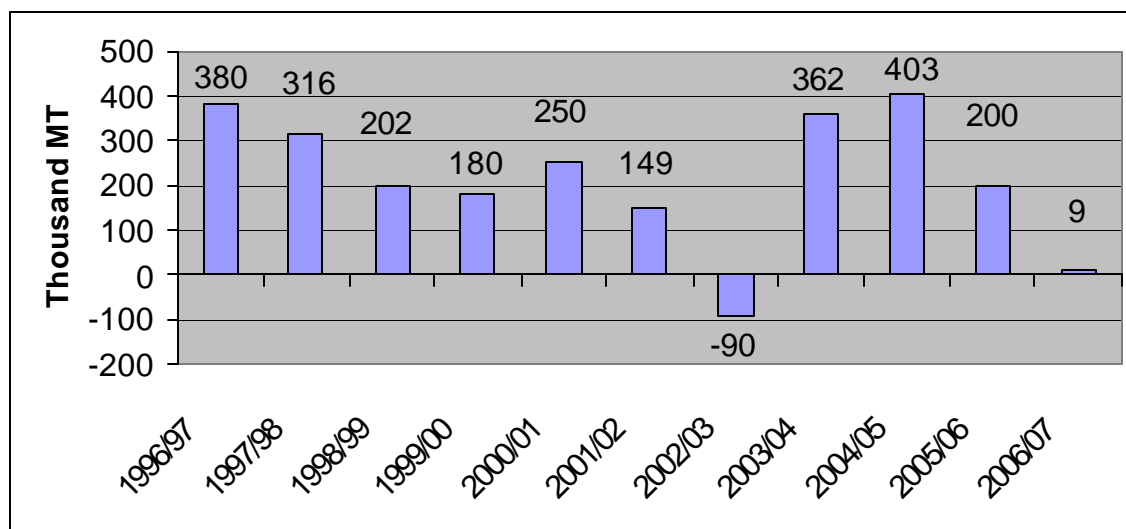
The current good milk prices make production beyond the individual quotas attractive, despite the super levy, for farms with a competitive cost structure. The size of German dairy herd has started to increase, reversing previous trends. As a result, we expect an increase in German milk deliveries for MY 2007/08. However, the extent of the increase is limited by the production cycle of dairy cows.

Includes PSD Changes: No
Includes Trade Matrix: No
Annual Report
Berlin [GM1]
[GM]

The European Commission has released provisional data on the fill of the dairy quota in milk year (MY) 2006/07 (April/March) in the individual member states¹. According to these figures, German dairy farmers exceeded their milk quota by 8,656 MT or less than 0.1 percent of the total available German quota, based on adjusted fat content. This compares to an overproduction of 201,142 MT or 0.7 percent in 2005/06. The overproduction triggers fines, which are also called "super levies". For MY 2006/07, super levies will amount to \$3.6 million² (2.47 million Euro). In MY 2005/06, Germany paid super levies totaling \$89 million (Euro 62 million).

The decrease in overproduction in MY 2006/07 is a consequence of a lower milk fat content combined with a 0.5 percent increase in national dairy quotas. During the CAP reform negotiations, members agreed to increase the milk quota in three annual installments of 0.5 percent each beginning in 2006/07. As a result, the German quota excluding the national reserve was 27,903,012 MT in MY 2006/07, compared to 27,764,142 MT in MY 2005/06. The quota will again be increased by 0.5 percent on April 1, 2008.

Chart 1: Quota Overproduction³ by German Dairy Farmers



Source: FAS Berlin based on data from the German Central Market and Price Reporting Agency (ZMP) and DG Agri

Table: Milk Deliveries in Germany

	2005/06	2006/07
Actual unadjusted deliveries (MT)	27,205,961	27,273,183
Fat Adjusted deliveries (MT)	27,965,285	27,911,668
Available quotas (MT)	27,764,142	27,903,012

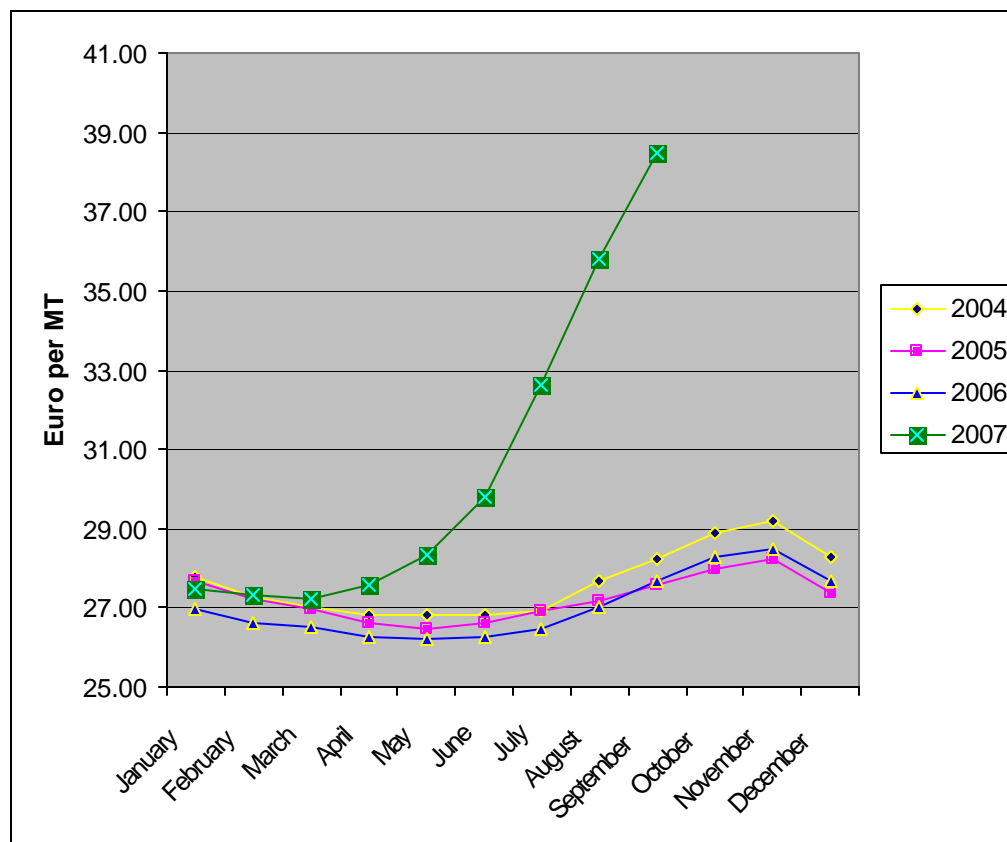
Source: DG Agri

¹

<http://europa.eu/rapid/pressReleasesAction.do?reference=IP/07/1543&format=HTML&aged=0&language=EN&guiLanguage=en>

² Exchange rate: 1 Euro = 1.4425 U.S. \$, 1 U.S.\$ = 0.6932 Euro, as of October 29, 2007

³ Fat adjusted quantities

Chart 2: Average Producer Prices for Milk in Germany by Month

Note: Standardized milk with 3.7 percent fat and 3.4 percent protein contents, ex farm gate, excluding VAT
 Source: FAS Berlin based on data from ZMP

Outlook

In summary, for MY 2007/08 we expect a moderate increase in German milk production. From April through September, quota usage in Germany amounted to 98.7 percent (of the increased quota) compared to 98.2 percent at the same time in the previous year. A more significant increase could be possible in the years thereafter if the good price level persists or the European Commission puts its plan of a 2 percent quota increase into effect.

- Factors contributing to a production increase

The larger quota for milk production and the high milk prices both are likely to result in increased milk production. At the beginning of MY 2007/08 the second installment of quota increase went into effect, this leaves room for an increase in milk deliveries without having to fear super levies. In addition, the increase in consumer dairy prices (see GM7038) has - with a certain time lag - translated into higher price for producers as well. For September 2007, ZMP estimates the average producer price at 385 Euro per MT. Press reports some dairy processors paying above 400 Euro per MT. The super levy for MY2007/08 is set at 278.30 Euro per MT. For farmer with a competitive cost structure, this makes deliveries above their quota attractive, even if they face a super levy.

- Factors limiting a production increase

A shortage of animals as well as increasing energy and feed costs and the possibility of falling milk prices limit the extent of the likely production increase. The production cycle of a dairy cow poses a limit to the extent that farmers can increase their deliveries at short

notice. Industry sources report a shortage of heifers on the market. Raising a calf from birth to first lactation takes approximately 2.5 years. Therefore, the only option for a short term increase in milk production is to use cows longer than normal. Preliminary data from the May 2007 animal census shows only a small (0.3 percent) year on year decrease in dairy cows compared to decreases of 1 to 3 percent in recent years. Compared to November 2006, dairy cow number increased by 0.4 percent. This shows that German farmers are already expanding their herds.

Also, increasing energy and feed costs may offset the increase in dairy prices in the future. A decrease in domestic and world market demand for dairy products as a reaction to the product price increase could negatively affect producer prices and prompt some farmers to keep their production stable or stop dairy production altogether. In the latter case, quota would likely be bought by more efficient farmers.

Background information on the German dairy sector

In November 2006, Germany registered 103,000 dairy farmers and 4.05 million dairy cows. This compares to 136,000 dairy farmers and 4.5 million dairy cows in November 2000, and 275,000 dairy farmers and 4.8 million cows in November 1990. The decline in dairy cows is due to increased milk production per cow while milk production quotas remained fixed. The decline in dairy farmers is due to economic pressure and industry consolidation.

Related reports:

Report number	Title	Date released
GM7038	Background on Higher Prices For Dairy Products in Germany http://www.fas.usda.gov/gainfiles/200708/146292042.pdf	08/14/2007
GM6039	German Dairy Farmers Halved Overproduction in MY 2005/06 http://www.fas.usda.gov/gainfiles/200610/146249218.pdf	10/11/2006
GM5028	German dairy farmers face \$163 million in superlevies for MY 2004/05 http://www.fas.usda.gov/gainfiles/200508/146130548.pdf	08/08/2005
GM4024	German dairy farmers exceeded their milk quota by 362,000 MT in milk year 2003/04. http://www.fas.usda.gov/gainfiles/200407/146106763.pdf	07/07/2004
E47093	Dairy and Products Annual Report http://www.fas.usda.gov/gainfiles/200710/146292773.pdf	10/19/2007